

VZCZCXR05469
OO RUEHDE
DE RUEHKU #4672/01 3051349
ZNY CCCCC ZZH
O 011349Z NOV 05
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1604
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE IMMEDIATE
RUEHGB/AMEMBASSY BAGHDAD IMMEDIATE 0468
RUEHIL/AMEMBASSY ISLAMABAD IMMEDIATE 0861
RUEHLO/AMEMBASSY LONDON IMMEDIATE 1064
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 004672

SIPDIS

SIPDIS

STATE FOR NEA/ARPI SWALKER, S/I FOR JJEFFREY, EB FOR JSALOOM, LONDON FOR LTSOU, ISLAMABAD FOR TWILDER, DEPARTMENT PLEASE PASS TO USTR FOR PBURKEAD, TREASURY FOR U/S LEVEY AND RWERNER

E.O. 12958: DECL: 10/06/2015

TAGS: ECON EAID EFIN KTFN PGOV PREL IZ KU

SUBJECT: FINANCE MINISTER ON IRAQI DEBT, ECONOMIC REFORM, TAXATION, TERROR FINANCE AND EARTHQUAKE ASSISTANCE

REF: A. KUWAIT 4338

1B. KUWAIT 4483

1C. KUWAIT 4552

Classified By: Ambassador Richard LeBaron. Reasons 1.4 (b) and (d)

11. (C) Summary. In a November 1 meeting with the Ambassador, Finance Minister Al-Humaidhi explained that there had been no renewed contact with the Iraqi government on debt relief since Ambassador Jeffrey's visit in October and that reconstruction assistance was proceeding slowly. He expressed cautious optimism about Kuwait's bullish stock market and underscored the importance of an independent SEC for Kuwait to enhance market oversight. Al-Humaidhi identified pending reforms on public private partnerships, taxation and privatization as top ministerial priorities for this legislative session. He pointed to a pending GOK decision to reduce the corporate tax rate from 55 to 15 percent as a precursor to more comprehensive reforms. He disagreed with the practical applicability of a cash exit declaration policy in Kuwait and said that the GOK's \$100M earthquake relief package was "only the start." End Summary

12. (C) On November 1, Ambassador met with Kuwaiti Finance Minister Bader Al-Humaidhi to follow-up on GOK debt relief and assistance to Iraq, solicit the Minister's views on the booming stock market, request an update on pending economic reforms, urge GOK action on tax reform, press for continued GOK support and visibility for terror finance and money-laundering initiatives, and urge sustained GOK assistance to earthquake relief efforts in Pakistan.

Iraq Assistance and Debt Relief

13. (C) In follow-up to Ambassador's Jeffrey's discussions with Al-Humaidhi on October 5 (see ref A), Ambassador asked Al-Humaidhi whether there had been any renewed contact between the GOK and the Iraqi Transitional Government (ITG) on debt relief for Iraq within the context of the GOK's commitment to a negotiated settlement. Ambassador added that the USG was cognizant of Kuwaiti domestic sensitivities impacting the approach to Iraq debt forgiveness, referring to the recent clamor in the National Assembly for forgiveness of Kuwaitis' private debt. Al-Humaidhi, echoing his comments from the Jeffrey visit, said that there had been no new discussions with the ITG since the World Bank/IMF meetings in Washington. Al-Humaidhi repeated his complaint that "the Iraqis always promise to contact but never do," suggesting

that "the Iraqis are busy with other things right now."

¶4. (C) Ambassador applauded the GOK's swift public rejection of parliamentary calls to write off Kuwaiti citizens' private debt as a quid pro quo for Iraqi debt relief or GOK disaster assistance to the United States and Pakistan (see ref B). Al-Humaidhi noted that writing off public Kuwaiti debt was "widely welcomed by the people," but that he had made political enemies in the parliament by rejecting the proposal as economically unfeasible. He commented that such proposals take for granted the country's current economic boom. With oil prices in constant flux, Al-Humaidhi cautioned that there was "no guarantee of future prosperity" and that it was more prudent to save for future generations.

¶5. (C) On reconstruction assistance to Iraq, the Ambassador pointed to the issuance of tenders for school construction by the Kuwait Fund as a sign of progress, but noted that similar progress on health sector projects was lacking. Al-Humaidhi blamed the delays on the lack of Iraqi responsiveness.

(Note: KFAED recently issued tenders on a \$30M grant to build schools in Iraq as part of an overall \$60M grant for Iraq's health and education sector. KFAED officials justify disbursal delays on security challenges, lack of ITG responsiveness, and GOK's interest in finalizing disbursal agreements with a permanent Iraqi government.)

¶6. (C) Ambassador informed Al-Humaidhi of USG plans to replicate the Provincial Reconstruction Team (PRT) concept from Afghanistan in Iraq. Ambassador suggested that the PRTs could potentially facilitate the disbursal of GOK assistance to the provinces, thereby overcoming some logistical challenges confronting the GOK. Al-Humaidhi welcomed the idea and urged follow-up on the PRT concept with KFAED

KUWAIT 00004672 002 OF 003

officials. (Note: Embassy would welcome additional details on the PRT concept to be shared with KFAED.)

Economic Prosperity and Reforms

¶7. (C) Ambassador requested Al-Humaidhi's assessment of the booming Kuwaiti stock market and the overall health of the economy, including prospects for economic reform and expected legislation during this parliamentary session. Al-Humaidhi expressed cautious optimism about the market's excess liquidity and continued surge, prompted in part by increased GCC investment in Kuwait. He added that while he was "personally not 100 percent at ease" with the market's current pace, improved GOK market regulatory controls and oversight made the possibility of a major crash, similar to Kuwait's 1982 crash, less likely. Al-Humaidhi also called for greater outreach by the GOK to ensure public awareness of inevitable market fluctuations. He concurred with the Ambassador's call for a Kuwaiti "Securities and Exchange Commission," stressing the importance of having an independent body to further strengthen regulatory oversight and to increase the enforcement of rules and regulations (see ref C regarding plans for a Capital Markets Authority).

(Note: The earlier, informal Kuwaiti stock market suffered a major crash in 1982, prompting the formation of the Kuwaiti Stock Exchange and enactment of more stringent regulations.)

¶8. (C) Al-Humaidhi identified three economic legislation priorities for the Ministry. He said his top priority was the structural overhaul of the current Build Operate Transfer (BOT) and Private Public Partnership (PPP) initiatives. He noted that the BOT/PPP reform measures would be presented to the National Assembly shortly and that he would "push hard" to ensure its success. This legislation would be the legal framework for subsequent specific BOT projects. His second and third priorities include reform of privatization and taxation laws, respectively. (Note: Al-Humaidhi explained that the GOK's first overall legislative priority would remain the Northern oilfields project.)

Corporate Taxation

¶ 9. (C) Ambassador reiterated USG concerns with Kuwait's "unfair, inconsistent, and non-transparent" tax system and the negative impact the country's tax laws were having on U.S. companies and foreign investment more broadly. He called for GOK cooperation to help resolve the retroactive taxation that is affecting U.S. companies with business interests in Kuwait. Replying that the GOK "will try" to address concerns, Al-Humaidhi pointed out that the GOK was pursuing two measures to address immediate and long-term concerns. He explained that the GOK would plan to reduce the current foreign corporate tax rate from 55 to 15 percent in order to provide immediate tax relief to foreign companies. Al-Humaidhi explained that the GOK's draft "comprehensive tax reform package," expected to be submitted to NA next year, would address long-term concerns by thoroughly overhauling the country's outdated tax regime. (Note: It remained unclear to us whether this approach would alleviate current problems faced by some U.S. companies.)

Terror Finance

¶ 10. (C) On terror finance issues, Ambassador informed Al-Humaidhi about the planned November 30 visit by Treasury Undersecretary Levey to discuss CTF/AML issues and the ongoing efforts of U.S. Customs advisors employed by Kuwait Customs to strengthen the GOK's AML efforts. Ambassador underscored the importance of continued GOK support for the advisors' efforts and encouraged Al-Humaidhi to participate in the Customs' December conference to raise visibility on the issue. Al-Humaidhi indicated having met the Customs advisors and welcomed the opportunity to participate in the December conference.

¶ 11. (C) Ambassador pointed to the lack of progress on implementing a cash exit declaration policy in Kuwait to better track the outflow of large sums of money from the country. (Note: Kuwait currently only has a cash entry declaration policy set at 3000KD or \$10,000). Al-Humaidhi

KUWAIT 00004672 003 OF 003

disagreed with the practical applicability of such a policy, suggesting that Kuwait's open market economy made it difficult, if not impossible, to impose such measures here and elsewhere, including the United States. He added that the issue of cash transfers by NGOs and other entities was also raised by Ambassador Jeffrey during his visit and that the GOK was still waiting to receive from the USG information on suspected Kuwaiti NGOs. Ambassador offered to follow-up and noted that some of this type information exchange may occur through intelligence channels.

Earthquake Assistance

¶ 12. (SBU) Ambassador praised the GOK's \$100M assistance offer for earthquake relief efforts in Pakistan and urged increased GOK assistance to meet the urgent needs that are complicated by the logistical and environmental challenges affecting the devastated areas. Without offering specifics, Al-Humaidhi said that the initial \$100M package was "only the start" of the GOK's relief efforts.

Visit Embassy Kuwait's Classified Website:
<http://www.state.sgov.gov/p/nea/kuwait/>

You can also access this site through the
State Department's Classified SIPRNET website

LEBARON